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# **ALPETRO**

**RESOURCES LTD.**

**2003 ANNUAL REPORT  
&  
INFORMATION CIRCULAR**



# **ALPETRO RESOURCES LTD.**

#2240, 444 - 5th Avenue S.W.

Calgary, Alberta T2P 2T8

## **NOTICE OF ANNUAL GENERAL MEETING OF SHAREHOLDERS**

**NOTICE IS HEREBY GIVEN THAT** an annual general meeting (the "Meeting") of holders of common shares of ALPETRO RESOURCES LTD. (the "Corporation") will be held at Suite 2240, 444 - 5th Avenue S.W., Calgary, Alberta, at 10:00 a.m. (local Calgary time) on Friday, June 4, 2004, for the following purposes:

1. to receive and consider the financial statements of the Corporation for the financial year ended December 31, 2003, and the auditors' report thereon;
2. to fix the number of directors of the Corporation to be elected at the Meeting at four (4);
3. to elect the Board of Directors of the Corporation for the ensuing year;
4. to appoint auditors of the Corporation for the ensuing year and to authorize the Board of Directors to fix the auditors' remuneration;
5. to consider, and if thought fit, to pass an ordinary resolution approving the Stock Option Plan of the Corporation and to authorize the directors of the Corporation to make any amendments thereto that may be required for the purpose of obtaining the approval of any regulatory authorities as more particularly described in the accompanying Management Information Circular dated April •, 2004; and
6. to transact such other business as may be properly brought before the Meeting or any adjournment thereof.

**DATED** at the City of Calgary, in the Province of Alberta, this 26th day of April, 2004.

### **BY ORDER OF THE BOARD OF DIRECTORS**

"Nazrul Islam"

**NAZRUL ISLAM**

President, Chief Executive Officer and Director

### **IMPORTANT**

It is desirable that as many shares as possible be represented at the Meeting. If you do not expect to attend and would like your shares represented, please complete the enclosed instrument of proxy and return it as soon as possible in the envelope provided for that purpose. All proxies, to be valid, must be received by Computershare Trust Company of Canada, Proxy Department, 100 University Avenue, 9th Floor, Toronto, Ontario M5J 2Y1, at least two (2) local business days prior to the Meeting or any adjournment thereof. Late proxies may be accepted or rejected by the Chairman of the Meeting in his discretion, and the Chairman is under no obligation to accept or reject any particular late proxy.





## ALPETRO RESOURCES LTD.

Suite 2240, 444 Fifth Ave. S.W., Calgary, Alberta T2P 2T8 Ph: (403) 234-9006 Fax: (403) 266-5959

April 26, 2004

### REPORT TO SHAREHOLDERS

Alpetro Resources Ltd. is committed to creating shareholder value through strategic growth since 1995. The Company has increased its reserves and production and will remain focused on exploration and development projects in conjunction with an on-going search for quality acquisitions and drilling participation.

The Nipisi 7-30-80-09 W5 showed significant response to offset water injection and its current production is approximately 81 barrels of oil per day.

The abandoned Nipisi 6-30-80-09 W5 well was re-entered in the later part of February 2004 to test and evaluate Gilwood Sand. While initial results were very promising, the water cut increased dramatically to 71%. The current production is approximately 12 barrels of oil per day.

The Nevis 5-1-29-23W4 was tied-in to the nearby Advantage battery at 7-2-39-23W4M in the month of December 2003. As of today this well is producing 8 barrels of oil and 233 mcf of gas per day from the Glauconite Zone.

Alpetro's oil and gas revenues were increased to \$1,051,890 compared to \$908,568 in 2002. The increase is due to higher oil and gas prices during the Third Quarter of 2003.

Alpetro intends to report further to shareholders concerning its net sales and reserves in its 2004 First Quarter Report.

Alpetro will continue to review all opportunities within the Company's area of focus and resume its strategic and timely acquisition of additional new reserves either by participation drilling or purchasing with a strong emphasis on favorable prices.

The continued advice and support of the Board of Directors and Shareholders of the Company is sincerely appreciated.

On behalf of the Board of Directors,

Nazrul Islam  
President and Chief Executive Officer

**ALPETRO RESOURCES LTD.**  
**FINANCIAL STATEMENTS**  
**DECEMBER 31, 2003 AND 2002**



## AUDITORS' REPORT

To: The Shareholders of  
**Alpetro Resources Ltd.**

We have audited the balance sheets of **Alpetro Resources Ltd.** (the "Company") as at December 31, 2003 and 2002 and the statements of operations and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*Hudson & Company LLP*

Calgary, Alberta  
April 16, 2004

HUDSON & COMPANY LLP  
Chartered Accountants



**ALPETRO RESOURCES LTD.**  
BALANCE SHEETS

DECEMBER 31	2003	2002
<b>ASSETS</b>		
CURRENT		
Cash	\$ 485,579	\$ 92,247
Accounts receivable	297,269	268,803
Income taxes recoverable	-	111,724
Prepaid expenses	3,401	3,401
	786,249	476,175
CAPITAL ASSETS (note 3)	1,204,462	1,282,410
	<u>\$ 1,990,711</u>	<u>\$ 1,758,585</u>
<b>LIABILITIES</b>		
CURRENT		
Accounts payable and accrued liabilities	\$ 257,027	\$ 305,234
Income taxes payable	74,736	-
	331,763	305,234
FUTURE INCOME TAXES (note 4)	14,387	14,387
SITE RESTORATION	78,205	68,205
	<u>424,355</u>	<u>387,826</u>
<b>SHAREHOLDERS' EQUITY</b>		
SHARE CAPITAL (note 5)	425,592	425,592
RETAINED EARNINGS	1,140,764	945,167
	<u>1,566,356</u>	<u>1,370,759</u>
	<u>\$ 1,990,711</u>	<u>\$ 1,758,585</u>

Approved on behalf of the Board

Director N. Islam

Director [Signature]

**ALPETRO RESOURCES LTD.**  
**STATEMENTS OF OPERATIONS AND RETAINED EARNINGS**

YEARS ENDED DECEMBER 31	2003	2002
<b>REVENUE</b>	<u>\$ 1,051,890</u>	<u>\$ 908,568</u>
<b>EXPENSES</b>		
Operating	257,055	297,120
Amortization and depletion	246,300	238,173
General and administration	183,626	185,295
Provision for future site restoration	<u>10,000</u>	<u>10,000</u>
	<u>696,981</u>	<u>730,588</u>
<b>EARNINGS BEFORE INCOME TAXES</b>	<u>354,909</u>	<u>177,980</u>
<b>INCOME TAX EXPENSE</b>		
Current	159,312	91,143
Future	-	<u>2,087</u>
	<u>159,312</u>	<u>93,230</u>
<b>NET EARNINGS</b>	195,597	84,750
<b>RETAINED EARNINGS, beginning of year</b>	<u>945,167</u>	<u>860,417</u>
<b>RETAINED EARNINGS, end of year</b>	<u>\$ 1,140,764</u>	<u>\$ 945,167</u>
<b>BASIC AND DILUTED EARNINGS PER SHARE (note 6)</b>	<u>\$ 0.03</u>	<u>\$ 0.01</u>



**ALPETRO RESOURCES LTD.**  
**STATEMENTS OF CASH FLOWS**

<u>YEARS ENDED DECEMBER 31</u>	<u>2003</u>	<u>2002</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net earnings	\$ 195,597	\$ 84,750
Items not affecting cash:		
Amortization and depletion	246,300	238,173
Future income taxes	-	2,087
Provision for future site restoration	10,000	10,000
	<hr/> 451,897	<hr/> 335,010
Changes in non-cash working capital items (note 7)	<hr/> 109,787	<hr/> 76,600
	561,684	411,610
<b>CASH FLOWS FROM INVESTING ACTIVITY</b>		
Purchase of capital assets	<hr/> (168,352)	<hr/> (312,040)
<b>INCREASE IN CASH</b>	393,332	99,570
<b>CASH (DEFICIENCY), beginning of year</b>	<hr/> 92,247	<hr/> (7,323)
<b>CASH, end of year</b>	<hr/> \$ 485,579	<hr/> \$ 92,247
<b>OTHER INFORMATION</b>		
Interest paid	\$ 1,920	\$ 1,521
Income taxes paid (recovered)	(27,148)	158,387

**ALPETRO RESOURCES LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**

DECEMBER 31, 2003 AND 2002

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**1. NATURE OF OPERATIONS**

Alpetro Resources Ltd. (the "Company") was incorporated under the Business Corporations Act of Alberta. Its principal business activity is participation in various oil and gas properties in Alberta.

**2. SIGNIFICANT ACCOUNTING POLICIES**

These financial statements have been prepared using the historical cost basis in accordance with Canadian generally accepted accounting principles. These financial statements have, in management's opinion, been properly prepared within the framework of the accounting policies summarized as follows:

**Use of estimates**

The amounts recorded for amortization and depletion of the petroleum and natural gas properties and for site restoration and reclamation are based on estimates of reserves and future costs. The ceiling test calculation is based on estimates of proven reserves, production rates, oil and gas prices, future costs and other relevant assumptions. By their nature, these estimates, and those related to the future cash flows used to assess impairment, are subject to measurement uncertainty and their impact on the financial statements of future periods could be material.

**Cash**

Cash is comprised of balances with banks.

**Joint ventures**

Substantially all of the Company's oil and gas activities are conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.

**Capitalized costs**

The Company follows the full cost method of accounting whereby all costs related to the acquisition and development of oil and gas reserves are initially capitalized. Such costs include lease acquisition costs, geological and geophysical expenditures, lease rentals on non-productive properties, costs of drilling both productive and non-productive wells, equipment costs and general and administrative expenses applicable to these activities.

Costs of acquiring and evaluating unproved properties are initially excluded from the costs subject to depletion and amortization. These properties are assessed regularly to ascertain whether impairment has occurred. When production commences or the property is considered to be impaired, the cost of the property or the amount of impairment is added to the costs subject to depletion and amortization.

Proceeds from disposal of properties will normally be applied as a reduction of the cost of the remaining assets unless the disposal results in a change in the depletion rate by more than twenty percent in which case a gain on loss or disposal will be recorded.

**ALPETRO RESOURCES LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**

DECEMBER 31, 2003 AND 2002

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**2. SIGNIFICANT ACCOUNTING POLICIES, continued**

**Amortization and depletion**

Depletion of petroleum and natural gas properties and amortization of production equipment is provided using the unit-of-production method based on estimated gross proven petroleum and natural gas reserves before royalties as determined by independent engineers. For purposes of this calculation, petroleum and natural gas reserves are converted to a common unit of measurement on the basis of their relative energy content.

The depletion and amortization base includes total capitalized costs, less costs of unproven properties, plus provision for future development costs of gross proven undeveloped reserves, as determined by independent engineers.

Amortization of office equipment is provided for on a declining balance basis at an annual rate of 20%. One-half the normal rate of amortization is recorded in the year of acquisition.

**Provision for future site restoration costs**

The Company provides for the total future liability for site restoration and abandonment costs on wells and facilities using the unit-of-production method over the estimated life of the gross proven reserves. The liability is based on estimates of the anticipated method and extent of site restoration, using current costs and in accordance with existing legislation and industry practice. Actual site restoration and abandonment costs are applied against the accumulated provision as incurred.

**Ceiling test**

Each year the Company applies a ceiling test to capitalized costs, net of recorded future income taxes and the accumulated site restoration provision, using prices in effect at year-end, to ensure that the net carrying value does not exceed the estimated value of future net revenues from the production of proven reserves, less general and administrative expenses, financing costs, estimated future site restoration costs, and income taxes. Any impairment in value is charged to operations.

**Future income taxes**

The Company follows the asset and liability method of accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between financial reporting and income tax bases of assets and liabilities, and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect on future tax assets and liabilities of a change in tax rates is recognized in net income in the period in which the change occurs.



**ALPETRO RESOURCES LTD.**  
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2003 AND 2002

**2. SIGNIFICANT ACCOUNTING POLICIES, continued**

**Earnings per share**

The Company follows the treasury stock method of calculating diluted earnings per share. Under this method, the exercise of options is assumed to have occurred at the beginning of the period and the related common shares are assumed issued at the exercise price.

The proceeds from the exercise are assumed to have been used to purchase common shares of the Company for cancellation at the average market value price during the period. The incremental shares (the difference between the number of shares assumed issued and the number of shares assumed purchased) are included in the denominator of the diluted earnings per share calculation.

**Stock-based compensation plans**

The Company has a stock option plan, which is described in note 5. Effective January 1, 2003, the Company has prospectively applied the revised CICA accounting standards for Stock-Based Compensation and Other Stock-Based Payments. Under this standard, the Company now accounts for all stock options using the fair value measured at the grant date using the Black-Scholes valuation model and is recognized over the vesting period of the options granted.

**Accounting change**

The effect of adopting the revised standard for Stock-Based Compensation and Other Stock-Based Payments is to recognize stock-based compensation cost based on the fair value of the equity instruments. There was no effect of this change on net earnings for the year as the stock options outstanding at December 31, 2003 were granted prior to January 1, 2002.

**3. CAPITAL ASSETS**

	2003		2002	
	Cost	Accumulated Amortization	Net	Net
Petroleum and natural gas properties	\$ 1,984,731	\$ 1,090,859	\$ 893,872	\$ 934,252
Production equipment	644,381	353,988	290,393	334,635
Office equipment	39,561	19,364	20,197	13,523
	<u>\$ 2,668,673</u>	<u>\$ 1,464,211</u>	<u>\$ 1,204,462</u>	<u>\$ 1,282,410</u>



**ALPETRO RESOURCES LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**

DECEMBER 31, 2003 AND 2002

**4. INCOME TAXES**

a) The components of future income tax balances are as follows:

	<u>2003</u>	<u>2002</u>
Future income tax asset		
Site restoration	\$ (31,766)	\$ (28,387)
Future income tax liability		
Capital assets	<u>46,153</u>	<u>42,774</u>
	<u>\$ 14,387</u>	<u>\$ 14,387</u>

b) The provision for income taxes recorded in the financial statements differs from the amount which would be obtained by applying the statutory income tax rate of 40.62% (2002 - 42.12%) to the earnings for the years as follows:

	<u>2003</u>	<u>2002</u>
Earnings for the year before income taxes	<u>\$ 354,909</u>	<u>\$ 177,980</u>
Anticipated income tax expense	\$ 144,000	\$ 75,000
Effect of correction of error	-	(11,932)
Non-deductible crown payments	98,343	93,133
Resource allowance	(58,335)	(47,964)
Other	<u>(24,696)</u>	<u>(15,007)</u>
Provision for income taxes	<u>\$ 159,312</u>	<u>\$ 93,230</u>

**ALPETRO RESOURCES LTD.**  
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2003 AND 2002

**5. SHARE CAPITAL**

a) Authorized

Unlimited first preferred shares  
Unlimited second preferred shares  
Unlimited common shares

b) Issued

	2003		2002	
	Issued	Amount	Issued	Amount
Common shares	5,675,000	\$ 425,592	5,675,000	\$ 425,592

c) Stock options

There were no issuances of stock options in the years ended December 31, 2003 and 2002, accordingly no information regarding stock based compensation is disclosed.

Under the Employee Stock Option Plan, the Company may grant options to its employees, directors and officers for up to 10% of the total number of issued and outstanding shares of the Company with the maximum number of common shares optioned to any one optionee not to exceed 5% of such outstanding common shares. The plan allows certain employees to purchase shares of the Company at a fixed price at any time up to a fixed date, as detailed below:

	Number	Weighted average exercise price
Outstanding December 31, 2001 and 2002	560,000	\$ 0.16
Forfeited	(50,000)	0.16
Outstanding December 31, 2003	510,000	\$ 0.20

Options outstanding	Exercise price	Options exercisable at December 31, 2003	Expiry date
510,000	\$ 0.16	510,000	June 7, 2006

**ALPETRO RESOURCES LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**

DECEMBER 31, 2003 AND 2002

**6. EARNINGS PER SHARE**

Basic earnings per share is calculated using the weighted average number of shares outstanding during the year. Diluted earnings per share is calculated to reflect the dilutive effect of stock options outstanding. Because the average share price during 2003 was below the exercise price of the options, there is no dilutive effect. Earnings per share is calculated as follows:

	2003			2002		
	Net earnings	Shares	Net earnings per share	Net earnings	Shares	Net earnings per share
Basic and diluted	195,597	5,675,000	0.03	84,750	5,675,000	0.01

**7. STATEMENT OF CASH FLOWS**

**Changes in non-cash working capital items**

	2003	2002
Accounts receivable	\$ (28,466)	\$ (142,467)
Income taxes	186,460	(62,456)
Prepaid expenses	-	160,000
Accounts payable and accrued liabilities	(48,207)	121,523
	<u>\$ 109,787</u>	<u>\$ 76,600</u>

**ALPETRO RESOURCES LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**

DECEMBER 31, 2003 AND 2002

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**8. BANK CREDIT FACILITY**

The Company has an overdraft limit and a demand revolving facility with the Canadian Western Bank, to be used for development and acquisition of petroleum and natural gas properties and related assets. At December 31, 2003, the credit facility available was \$586,000 (2002 - \$750,000). The available amount of the facility is reduced by a minimum of \$15,000 per month. The balance of the facility was \$nil at both December 31, 2003 and 2002.

This credit facility is secured by a fixed and floating charge debenture over all assets, a general security agreement and a general assignment of book debts. The facility bears interest at prime plus 1.50% payable monthly.

**9. FINANCIAL INSTRUMENTS**

Financial instruments consist of recorded amounts of accounts receivable which will result in future cash receipts, as well as accounts payable and accrued liabilities, which will result in future cash outlays. In management's opinion, the Company's carrying values of these instruments approximate their fair values due to the immediate or short-term maturity.

The Company is exposed to credit risk from customers. During 2003, three customers comprised the majority of the Company's oil and gas revenue and accounts receivable. Since these sales could be made to other buyers on terms that would allow the reporting entity to continue as a viable economic entity, the economic dependency on these customers is minimized.

**10. LEASE COMMITMENT**

The Company's total obligation, under a property lease agreement, exclusive of occupancy costs, is as follows:

2004	<u>\$ 28,882</u>
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# **ALPETRO RESOURCES LTD.**

**Suite 2240, 444 - 5th Avenue S.W.  
Calgary, Alberta T2P 2T8**

## **MANAGEMENT INFORMATION CIRCULAR for the Annual General Meeting of Shareholders to be held on Friday, June 4, 2004**

### **PURPOSE OF SOLICITATION**

**THIS MANAGEMENT INFORMATION CIRCULAR (THE “INFORMATION CIRCULAR”) IS PROVIDED IN CONNECTION WITH THE SOLICITATION BY MANAGEMENT OF ALPETRO RESOURCES LTD. (THE “CORPORATION”)** of proxies from the holders of common shares (the “Common Shares”) for use at the annual general meeting of the shareholders of the Corporation (the “Meeting”) to be held on Friday, June 4, 2004 at 10:00 a.m. (Calgary time) at the offices of the Corporation located at Suite 2240, 444 – 5th Avenue S.W., Calgary, Alberta, or at any adjournment thereof, for the purposes set out in the accompanying notice of meeting (the “Notice of Meeting”).

Although it is expected that the solicitation of proxies will be primarily by mail, proxies may also be solicited personally or by telephone, facsimile or other proxy solicitation services. In accordance with National Instrument 54-101, arrangements have been made with brokerage houses and other intermediaries, clearing agencies, custodians, nominees and fiduciaries to forward proxy solicitation materials to the beneficial owners of the Common Shares (as defined below) held of record by such persons and the Corporation may reimburse such persons for reasonable fees and disbursements incurred by them in doing so. The costs thereof will be borne by the Corporation.

### **APPOINTMENT AND REVOCATION OF PROXIES**

**The persons named (the “Management Designees”) in the accompanying instrument of proxy (the “Instrument of Proxy”) have been selected by the board of directors of the Corporation and have indicated their willingness to represent as proxy the shareholder who appoints them. A shareholder has the right to designate a person (whom need not be a shareholder) other than the Management Designees to represent him or her at the Meeting.** Such right may be exercised by inserting in the space provided for that purpose on the Instrument of Proxy, the name of the person to be designated and by deleting therefrom the names of the Management Designees, or by completing another proper form of proxy and delivering the same to the transfer agent of the Corporation. Such shareholder should notify the nominee of the appointment, obtain the nominee’s consent to act as proxy, and provide instructions on how the shareholder’s Common Shares are to be voted. The nominee should bring personal identification with him to the Meeting. In any case, the form of proxy should be dated and executed by the shareholder or an attorney authorized in writing, with proof of such authorization attached (where an attorney executed the proxy form).

A form of proxy will not be valid for the Meeting or any adjournment thereof unless it is completed and delivered to the Corporation's transfer agent, Computershare Trust Company of Canada ("Computershare"), Proxy Department, located at 100 University Avenue, 9th Floor, Toronto, Ontario M5J 2Y1, at least two (2) local business days prior to the Meeting or any adjournment thereof. Late proxies may be accepted or rejected by the Chairman of the Meeting in his discretion, and the Chairman is under no obligation to accept or reject any particular late proxy.

A shareholder who has given a proxy may revoke it as to any matter upon which a vote has not already been cast pursuant to the authority conferred by the proxy. In addition to revocation in any other manner permitted by law, a proxy may be revoked by depositing an instrument in writing executed by the shareholder or by his authorized attorney in writing, or if the shareholder is a corporation, under its corporate seal by an officer or attorney thereof duly authorized, either at the registered office of the Corporation located at Suite 1000, 665 – 8th Avenue S.W., Calgary, Alberta T2P 3K7, or with Computershare at the address set out above, at any time up to and including the last business day preceding the date of the Meeting, or any adjournment thereof, at which the proxy is to be used, or by depositing the instrument in writing with the Chairman of such Meeting on the day of the Meeting, or any adjournment thereof. In addition, a proxy may be revoked by the shareholder personally attending the Meeting and voting his or her Common Shares.

### **ADVICE TO BENEFICIAL SHAREHOLDERS**

**The information set forth in this section is of significant importance to many shareholders of the Corporation, as a substantial number of shareholders do not hold their Common Shares in their own name.** Shareholders who hold their Common Shares through their brokers, intermediaries, trustees or other persons, or who otherwise do not hold their Common Shares in their own name (referred to in this Information Circular as "Beneficial Shareholders") should note that only proxies deposited by shareholders whose names appear on the records of the Corporation maintained by Computershare as registered holders of Common Shares will be recognized and acted upon at the Meeting. If Common Shares are listed in an account statement provided to a Beneficial Shareholder by a broker, those Common Shares will, in all likelihood, *not* be registered in the Beneficial Shareholder's name. Such Common Shares will more likely be registered under the name of the Beneficial Shareholder's broker or an agent of that broker. In Canada, the vast majority of such shares are registered under the name of CDS & Co. (the registration name for The Canadian Depository for Securities, which acts as nominee for many Canadian brokerage firms). Common Shares held by brokers or their agents or nominees on behalf of a broker's client can only be voted (for or against resolutions) at the direction of the Beneficial Shareholder. Without specific instructions, brokers and their agents and nominees are prohibited from voting shares for the broker's clients. **Therefore, each Beneficial Shareholder should ensure that voting instructions respecting the voting of their Common Shares are communicated to the appropriate person well in advance of the Meeting.**

Existing regulatory policy requires brokers and other intermediaries to seek voting instructions from Beneficial Shareholders in advance of shareholders' meetings. The various brokers and other intermediaries have their own mailing procedures and provide their own return instructions to clients, which should be carefully followed by Beneficial Shareholders in order to ensure that their Common Shares are voted at the Meeting. The form of proxy supplied to a Beneficial Shareholder by his or her broker (or the agent of the broker) is substantially similar to the



Instrument of Proxy provided directly to registered shareholders by the Corporation. However, its purpose is limited to instructing the registered shareholder (i.e., the broker or agent of the broker) how to vote on behalf of the Beneficial Shareholder. The vast majority of brokers now delegate responsibility for obtaining instructions from clients to ADP Investor Communications Corporation ("ADP") (formerly, Independent Investor Communications Corporation) in Canada. ADP typically prepares a machine-readable voting instruction form, mails those forms to the Beneficial Shareholders and asks Beneficial Shareholders to return the forms to ADP, or otherwise communicate voting instructions to ADP (by way of the Internet or telephone, for example). ADP then tabulates the results of all instructions received and provides appropriate instructions respecting the voting of Common Shares to be represented at the Meeting. **A Beneficial Shareholder who receives an ADP voting instruction form cannot use that form to vote Common Shares directly at the Meeting. The voting instruction form must be returned to ADP (or instructions respecting the voting of Common Shares must otherwise be communicated to ADP) well in advance of the Meeting in order to have the Common Shares voted. If you have any questions respecting the voting of Common Shares held through a broker or other intermediary, please contact that broker or other intermediary for assistance.**

Although a Beneficial Shareholder may not be recognized directly at the Meeting for purposes of voting Common Shares registered in the name of his or her broker, a Beneficial Shareholder may attend the Meeting as proxyholder for the registered shareholder and vote the Common Shares in that capacity. **Beneficial Shareholders who wish to attend the Meeting and indirectly vote their Common Shares as proxyholder for the registered shareholder, should enter their own names in the blank space on the form of proxy provided to them and return the same to their broker (or the broker's agent) in accordance with the instructions provided by such broker (or agent), well in advance of the Meeting.**

All references to shareholders in this Information Circular and the accompanying Instrument of Proxy and Notice of Meeting are to registered shareholders unless specifically stated otherwise.

### **VOTING OF PROXIES**

Each shareholder may instruct his proxy how to vote his Common Shares by completing the blanks on the Instrument of Proxy. All Common Shares represented at the Meeting by properly executed proxies will be voted or withheld from voting (including the voting on any ballot), and where a choice with respect to any matter to be acted upon has been specified in the Instrument of Proxy, the Common Shares represented by the proxy will be voted in accordance with such specification. **In the absence of any such specification as to voting on the Instrument of Proxy, the Management Designees, if named as proxy, will vote in favour of the matters set out therein. In the absence of any specification as to voting on any other form of proxy, the Common Shares represented by such form of proxy will be voted in favour of the matters set out therein.**

The enclosed Instrument of Proxy confers discretionary authority upon the Management Designees, or other persons named as proxy, with respect to amendments to or variations of matters identified in the Notice of Meeting and any other matters which may properly come before the Meeting. As of the date hereof, the Corporation is not aware of any amendments to, or variations of or other matters which may come before the Meeting. In the event that other matters come before the Meeting, then the Management

**Designees intend to vote in accordance with the judgment of management of the Corporation.**

### **QUORUM**

The By-laws of the Corporation provide that a quorum of shareholders is present at a meeting of shareholders if two holders of not less than five percent (5%) of the shares entitled to vote at a meeting of shareholders are present in person or by proxy

### **VOTING SHARES AND PRINCIPAL HOLDERS THEREOF**

The Corporation is authorized to issue an unlimited number of Common Shares without nominal or par value. As at the effective date of this Information Circular (the "Effective Date"), which is April 26, 2004, the Corporation has 5,675,000 Common Shares without nominal or par value outstanding. The holders of Common Shares are entitled to one vote for each Common Share held.

The holders of Common Shares of record at the close of business on April 23, 2004 (the "Record Date") are entitled to vote such Common Shares at the Meeting, except to the extent that (a) such person transfers his or her shares after the Record Date; and (b) the transferee of those shares produces properly endorsed share certificates or otherwise establishes his or her ownership to the shares and makes a demand to Computershare not later than ten (10) days before the day of the Meeting that his or her name be included in the list of persons entitled to vote at the Meeting, in which case the transferee will be entitled to vote his or her Common Shares at the Meeting.

To the knowledge of the directors and senior officers of the Corporation as at the Effective Date, the following table lists those persons who own of record or beneficially own, directly or indirectly, or exercise control or direction over, more than 10% of the issued and outstanding Common Shares that are entitled to vote at the Meeting:

<b>Name and Municipality of Residence</b>	<b>Type of Ownership</b>	<b>Number of Common Shares</b>	<b>Percentage of Common Shares Held</b>
Nazrul Islam Calgary, Alberta	of record and beneficially	3,668,000	64.63

### **STATEMENT OF EXECUTIVE COMPENSATION**

#### **Compensation of Executive Officers**

As at the Effective Date, the Corporation has one (1) Executive Officer, who is also a director. "Executive Officer" means (a) the chairman and any vice-chairman of the board of directors where that person performs the functions of that office on a full-time basis, (b) the president or any vice-president in charge of a principal business unit, and (c) any officer of the issuer who performs a policy-making function in respect of the issuer, whether or not that officer is also a director of the issuer. The aggregate cash compensation (including salaries, fees, director's fees, commissions, bonuses paid for services rendered during the most recently completed fiscal year, bonuses paid for services rendered in a previous year, and any compensation other than bonuses earned during the most recently completed fiscal year the payment of which was



deferred) paid to such person in his capacity as an Executive Officer, for the most recently completed financial year, was \$75,500.

### **Summary Compensation**

The following table sets forth all annual and long term compensation for services in all capacities to the Corporation for the three most recently completed financial years in respect of the individual(s) who was/were, at the end of the most recently completed fiscal year, acting in a capacity similar to a Chief Executive Officer of the Corporation and the four most highly compensated Executive Officers whose compensation was greater than \$100,000 (the "Named Executive Officer(s)"):

		Annual Compensation			Long-Term Compensation			
					Awards		Payouts	
Name and Position	Fiscal Period Ended	Salary (\$/yr.)	Bonus (\$)	Other Annual Compensation (\$)	Securities Under Options/SARs <sup>(1)</sup> Granted (#)	Restricted Shares or Restricted Share Units (\$)	LTIP <sup>(2)</sup> Payouts (\$)	All Other Compensation <sup>(3)</sup> (\$)
Nazrul Islam President	12/31/03	75,000	Nil	Nil	200,000	Nil	Nil	500
	12/31/02	75,000	Nil	Nil	200,000	Nil	Nil	500
	12/31/01	75,000	Nil	Nil	200,000	Nil	Nil	500

Notes:

- (1) "SARS" or "stock appreciation right" means a right granted by the Corporation as compensation for services rendered, to receive a payment of cash or an issue or transfer of securities based wholly or in part on changes in the trading price of publicly traded securities of the Corporation.
- (2) "LTIP" or "long term incentive plan" means any plan which provides compensation intended to serve as incentive for performance to occur over a period longer than one financial year, but does not include option or stock appreciation right plans or plans for compensation through restricted shares or restricted share units.
- (3) Aggregate annual director's fees.

### **Compensation of Directors**

Directors of the Corporation are entitled to receive compensation in the amount of \$250 per directors' and audit committee meeting for services rendered in such capacity. During the most recently completed financial year, the Corporation paid an aggregate of \$2,000 in cash compensation (including salaries, directors' fees, commissions, bonuses paid for services rendered, bonuses paid for services rendered in a previous year, and any compensation other than bonuses earned by the directors for services rendered) to the directors for services rendered. Disclosure on compensation, including stock options, received by directors who are also Named Executive Officers is disclosed under the heading "Summary Compensation" above.

### **Stock Option Plan and Stock Options**

The Corporation has a stock option plan (the "Plan") previously approved by the shareholders of the Corporation at the annual general meeting held June 7, 2003. The purpose of the Plan is to offer directors, officers, employees and consultants of the Corporation the opportunity to acquire a proprietary interest in the Corporation, thereby providing an incentive to such parties

to promote the best interests of the Corporation and to provide the means to the Corporation to attract qualified persons.

The policies of the TSX Venture Exchange (the "Exchange") require that the Plan be approved annually by the shareholders of the Corporation. See "Particulars of Matters to Be Acted Upon – 2004 Stock Option Plan".

As at the Effective Date, the Corporation has 510,000 Common Shares reserved for issuance upon exercise of outstanding stock options granted to its directors, officers, employees and consultants, the particulars of which are as follows:

Group (Number of Persons in Group)	Number of Common Shares under Option	Date of Grant	Expiry Date	Exercise Price per Common Share	Market Value of Securities Underlying Option on Date of Grant (\$/Security)
Executive Officers including Executive Officers who are Directors (one)	200,000	June 7, 2001	June 7, 2006	\$0.16	\$0.20
Non-Executive Officers (three)	310,000	June 7, 2001	June 7, 2006	\$0.16	\$0.20

***Aggregate Option/SAR Exercises During the Most Recently Completed Financial Year and Financial Year-End Option/SAR Values***

The following table sets forth information for each Named Executive Officer in respect of each exercise of options and free standing SARs, if any, during the Corporation's most recent financial year and the financial year-end value of unexercised options and SARs, if any, on an aggregate basis.

Name	Securities Acquired on Exercise (#)	Aggregate Value Realized (\$)	Unexercised Options as at Financial Year-End (#) Exercisable/Unexercisable	Value of Unexercised In-the-Money Options at Financial Year-End (\$) <sup>(1)</sup> Exercisable/Unexercisable
Nazrul Islam President and Chief Executive Officer and Director	Nil	Nil	200,000 / Nil	\$Nil / N/A

Note:

- (1) Value is determined by calculating the difference between \$0.16, the closing price of the Common Shares on December 31, 2003 and the exercise price of the options, and then multiplying the difference by the number of Common Shares under option at the financial year-end.

***Long Term Incentive Plans – Awards in Most Recently Completed Financial Year***

The Corporation does not have any long term incentive plans other than options granted from time to time under the Plan. See "Stock Option Plan and Stock Options".

***Stock Option and SAR Repricing***

The Corporation did not make any downward repricing of stock options or stock appreciation rights during the most recently completed financial year.

### ***Pension and Retirement Plans and Payments Made Upon Termination of Employment***

The Corporation does not have any pension or retirement plan which is applicable to the Executive Officers. The Corporation has not provided compensation, monetary or otherwise, during the preceding fiscal year, to any person who now or previously has acted as an Executive Officer of the Corporation, in connection with or related to retirement, termination or resignation of such person and the Corporation has provided no compensation to such persons as a result of a change of control of the Corporation. The Corporation is not a party to any compensation plan or arrangement with the Executive Officers resulting from the resignation, retirement or termination of employment of such persons.

### ***Employment Contracts***

The Corporation does not have in place any employment contract between the Corporation and the Named Executive Officer.

### ***Other Compensation***

Other than as set out herein, the Corporation did not pay any other compensation to Executive Officers or directors (including personal benefits and securities or properties paid or distributed which compensation was not offered on the same terms to all full time employees).

## **MANAGEMENT CONTRACTS**

During the most recently completed financial year, no management functions of the Corporation were to any substantial degree performed by a person or company other than the directors or Executive Officers of the Corporation.

## **INDEBTEDNESS OF DIRECTORS, EXECUTIVE OFFICERS AND SENIOR OFFICERS**

During the most recently completed financial year, no director, Executive Officer, senior officer, nominee for election as a director, nor any of their respective associates or affiliates, is, or has been at any time since the beginning of the last completed financial year, indebted to the Corporation nor has any such person been indebted to any other entity where such indebtedness is the subject of a guarantee, support agreement, letter of credit or similar arrangement or understanding, provided by the Corporation.

## **INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

Other than as set forth herein, the Corporation is not aware of any material interests, direct or indirect, by way of beneficial ownership of securities or otherwise, of any director or Executive Officer, proposed nominee for election as a director or any shareholder holding more than 10% of the voting rights attached to the Common Shares or any associate or affiliate of any of the foregoing in any transaction in the preceding financial year or in any proposed or ongoing transaction of the Corporation which has materially affected or will materially affect the Corporation.



## **INTEREST OF CERTAIN PERSONS IN MATTERS TO BE ACTED UPON**

Except as otherwise set out herein, no director or Executive Officer of the Corporation or any proposed nominee of the management of the Corporation for election as a director of the Corporation, nor any associate or affiliate of the foregoing persons, has any material interest, direct or indirect, by way of beneficial ownership of securities or otherwise, in matters to be acted upon at the Meeting.

## **PARTICULARS OF MATTERS TO BE ACTED UPON**

To the knowledge of the Corporation's directors, the only matters to be brought before the Meeting are those matters set forth in the accompanying Notice of Meeting.

### **1. Report and Financial Statements**

The directors of the Corporation have approved all of the information in the Annual Report that accompanies this Information Circular, including the audited financial statements for the year ended December 31, 2003 and the report of the auditors thereon.

### **2. Fix Number of Directors to be Elected at Meeting**

The board of directors of the Corporation currently consists of four (4) directors, all of whom are elected annually. The term of office for each of the present directors of the Corporation expires at the Meeting. It is proposed that the number of directors to be elected at the Meeting, for the ensuing year, be fixed at four (4). At the Meeting, the shareholders of the Corporation will be asked to consider and, if thought fit, approve an ordinary resolution fixing the number of directors to be elected at the Meeting at four (4). **Unless otherwise directed, the persons named in the enclosed Instrument of Proxy as Management Designees intend to vote in favour of the ordinary resolution fixing the number of directors to be elected at the Meeting at four (4).**

### **3. Election of Directors**

**Unless otherwise directed, the persons named in the enclosed Instrument of Proxy as Management Designees intend to vote for the election of the nominees whose names appear in the table below to the board of directors.** The management of the Corporation has no reason to believe that any of such nominees will be unable to serve as directors, but, should one or more of such nominees become unable to serve as directors prior to the Meeting, **the persons named in the enclosed Instrument of Proxy as Management Designees intend to vote for another nominee or nominees, as the case may be, in their discretion.** Shareholders executing the Instrument of Proxy who do not wish their Common Shares to be voted in this manner should indicate that their Common Shares are to be withheld from voting in the election of directors, in the appropriate place on the Instrument of Proxy. Each director elected will hold office until the next annual general meeting of the Corporation or until his or her successor is elected or appointed, unless his or her office is earlier vacated in accordance with the By-laws of the Corporation or with the provisions of the *Business Corporations Act* (Alberta) (the "Act").

The following information relating to the nominees as directors is based on information received by the Corporation from such nominees:



Name of Proposed Nominees and Positions with the Corporation	Principal Occupation	Director Since	Common Shares Beneficially Owned
Nazrul Islam <sup>(1)</sup> <i>President, Chief Executive Officer, Chief Financial Officer and Director</i> Calgary, Alberta	President, Chief Executive Officer, Treasurer and Chief Financial Officer of the Corporation	1994	3,668,000
Robert M. Boyer <i>Secretary and Director</i> Calgary, Alberta	Member of Spier Harben, Barristers and Solicitors	1994	Nil
William E. Richards <sup>(1)</sup> <i>Director</i> Calgary, Alberta	Manages own investments including acquisitions in the oil and gas sector. Currently, Chairman of the Canada-Bangladesh trade group, Chief Executive Officer of Geopetrol International (1993) Ltd. and a director of Maxx Petroleum Ltd.	1996	125,000
Robin Chan <sup>(1)</sup> <i>Director</i> Calgary, Alberta	Senior Accountant and Controller for Invasion Energy Inc., a private Alberta oil and gas company	2002	Nil

Notes: (1) Member of the Corporation's audit committee. The Corporation does not have an executive committee or a compensation committee.

The proposed directors and senior officers of the Corporation as a group currently own, or exercise control or direction over, directly or indirectly, 3,793,000 Common Shares, representing 66.84% of the outstanding Common Shares.

#### 4. Appointment of Auditors

Hudson & Company LLP, Chartered Accountants of Calgary, Alberta ("Hudson") were appointed auditors of the Corporation at the last annual general meeting of shareholders held on June 4, 2003. Hudson have been the auditors of the Corporation since January 31, 1995.

The Corporation is proposing to appoint Hudson as auditors of the Corporation for the ensuing year, until the next annual meeting of shareholders. **Unless otherwise directed, the persons named in the enclosed Instrument of Proxy as Management Designees intend to vote for the appointment of Hudson as auditors of the Corporation for the next ensuing year**, to hold office until the close of the next annual general meeting of shareholders or until Hudson is removed from office or resigns as provided by the Corporation's By-laws, at a remuneration to be fixed by the board of directors.

#### 5. 2004 Stock Option Plan

In August 2002, the TSX Venture Exchange (the "Exchange") amended its policies to require that all listed companies adopt a stock option plan. At the Corporation's last annual general meeting, held on June 4, 2003, the shareholders of the Corporation approved the Corporation's current Plan. Under the Plan, the Corporation's board of directors may grant up to 10% of the issued number of shares outstanding at the date of the stock option grant. On this basis, the Plan has been operated as a "Rolling Plan" which must be approved on an annual basis. Accordingly, shareholders will be asked at the Meeting to vote on a resolution to adopt a Rolling Plan (the "2004 Plan") for the ensuing year, in the form attached as Schedule "A" hereto.

The 2004 Plan provides that the board of directors of the Corporation may from time to time, in its discretion, grant to directors, officers, employees and consultants of the Corporation, or any subsidiary of the Corporation, the option to purchase Common Shares. The Plan provides for a floating maximum limit of 10% of the outstanding Common Shares, as permitted by the Policies of the Exchange. As at the date hereof, this represents 567,500 Common Shares available under the Plan. To date, options to purchase a total of 510,000 Common Shares have been issued to directors, officers, employees and consultants of the Corporation.

The number of Common Shares reserved for any one person may not exceed 5% of the outstanding Common Shares. The board of directors determines the price per Common Share and the number of Common Shares that may be allotted to each director, officer, employee and consultant and all other terms and conditions of the options, subject to the rules of the Exchange. The price per Common Share set by the directors is subject to minimum pricing restrictions set by the Exchange.

Options may be exercisable for up to five years from the date of grant, but the board of directors has the discretion to grant options that are exercisable for a shorter period. Options under the 2004 Plan are non-assignable. If prior to the exercise of an option, the holder ceases to be a director, officer, employee or consultant, the option shall be limited to the number of Common Shares purchasable by him immediately prior to the time of his cessation of office or employment and he shall have no right to purchase any other Common Shares. Options must be exercised within ninety days of termination of employment or cessation of position with the Corporation (thirty days in the case of a person engaged in investor relations), provided that if the cessation of office, directorship, consulting arrangement or employment was by reason of death or disability, the option must be exercised within one year, subject to the expiry date.

A complete copy of the 2004 Plan is attached as Schedule "A" to this Information Circular. The Plan is subject to approval by the Exchange and subject to approval by the shareholders of the Corporation, as required by the rules of the Exchange.

At the Meeting, the shareholders will be asked to approve the following resolution:

"BE IT RESOLVED THAT:

- (a) the stock option plan of the Corporation, as described in and attached as Schedule "A" to the Information Circular of the Corporation dated April 26, 2004 (the "2004 Plan"), be and is hereby approved and adopted as the stock option plan of the Corporation;
- (b) the 2004 Plan may be amended in order to satisfy the requirements or requests of any regulatory authorities without requiring further approval of the shareholders of the Corporation;
- (c) all issued and outstanding stock options previously granted are continued under and governed by the 2004 Plan, and are hereby ratified, confirmed and approved;
- (d) any one (or more) director or officer of the Corporation is authorized and directed, on behalf of the Corporation, to make all such arrangements, to do all acts and things, and to execute all documents and instruments in writing, whether under the corporate seal of the Corporation or otherwise, as may be

considered necessary or advisable to give full force and effect to this ordinary resolution.”

**The resolution must be approved by a simple majority of the votes cast at the meeting by the holders of Common Shares. If the Plan is not approved by the shareholders, the Corporation will have to consider other methods of compensating and providing incentives to directors, officers, employees and consultants.**

**Unless otherwise directed, If named as proxy, the persons named in the enclosed Instrument of Proxy as Management Designees intend to vote for approval of the 2004 Plan.**

### **OTHER BUSINESS**

While there is no other business other than that business mentioned in the Notice of Meeting to be presented for action by the shareholders at the Meeting, **it is intended that the proxies hereby solicited will be exercised upon any other matters and proposals that may properly come before the Meeting or any adjournment or adjournments thereof, in accordance with the discretion of the persons authorized to act thereunder.**

### **GENERAL**

All matters referred to herein for approval by the shareholders require a simple majority of the shareholders voting, in person or by proxy, at the Meeting.

The contents and sending of this Information Circular have been approved by the board of directors of the Corporation.

Unless otherwise stated, the information contained herein is given as of the 26th day April, 2004.

### **CERTIFICATE**

The foregoing contains no untrue statement of a material fact and does not omit to state a material fact that is required to be stated or that is necessary to make a statement not misleading in the light of the circumstances in which it was made.

**DATED** at the City of Calgary, in the Province of Alberta, this 26th day of April, 2004.

*“Nazrul Islam”*

\_\_\_\_\_  
**NAZRUL ISLAM**, President as  
 Chief Executive Officer and  
 Chief Financial Officer



## **SCHEDULE "A"**

### **2004 STOCK OPTION PLAN**

#### **ALPETRO RESOURCES LTD.**

##### **1. The Plan**

A stock option plan (the "Plan"), pursuant to which options to purchase common shares, or such other shares as may be substituted therefor, (the "Shares"), in the capital of Alpetro Resources Ltd. (the "Corporation"), may be granted to the directors, officers and employees of the Corporation and to consultants retained by the Corporation, is hereby established on the terms and conditions set forth herein.

##### **2. Purpose**

The purpose of this Plan is to advance the interests of the Corporation by encouraging the directors, officers and employees of the Corporation and consultants retained by the Corporation to acquire Shares, thereby: (i) increasing the proprietary interests of such persons in the Corporation; (ii) aligning the interests of such persons with the interests of the Corporation's shareholders generally; (iii) encouraging such persons to remain associated with the Corporation; (iv) furnishing such persons with an additional incentive in their efforts on behalf of the Corporation and attracting new employees, officers, directors and consultants.

##### **3. Administration**

- (a) This Plan shall be administered by the board of directors of the Corporation (the "Board").
- (b) Subject to the terms and conditions set forth herein, the Board is authorized to provide for the granting, exercise and method of exercise of Options (as defined in paragraph 3(d) hereof), all on such terms (which may vary between Options granted from time to time) as it shall determine. In addition, the Board shall have the authority to: (i) construe and interpret this Plan and all option agreements entered into hereunder; (ii) prescribe, amend and rescind rules and regulations relating to this Plan; and (iii) make all other determinations necessary or advisable for the administration of this Plan. All determinations and interpretations made by the Board shall be binding on all Participants (as hereinafter defined) and on their legal, personal representatives and beneficiaries.
- (c) Notwithstanding the foregoing or any other provision contained herein, the Board shall have the right to delegate the administration and operation of this Plan, in whole or in part, to a committee of the Board or to the President or any other officer of the Corporation. Whenever used herein, the term "Board" shall be deemed to include any committee or officer to which the Board has, fully or partially, delegated responsibility



and/or authority relating to the Plan or the administration and operation of the Plan pursuant to this Section 3.

- (d) Options to purchase the Shares granted hereunder ("Options") shall be evidenced by (i) an agreement, signed on behalf of the Corporation and by the person to whom an Option is granted, which agreement shall be in such form as the Board shall approve, or (ii) a written notice or other instrument, signed by the Corporation, setting forth the material attributes of the Options.

#### **4. Shares Subject to the Plan**

- (a) Subject to Section 15, the securities that may be acquired by Participants (as hereinafter defined) upon the exercise of Options shall consist of authorized but unissued Shares. Whenever used herein, the term "Shares" shall be deemed to include any other securities that may be acquired by a Participant upon the exercise of an Option the terms of which have been modified in accordance with Section 15.
- (b) The aggregate number of Shares reserved for issuance under the Plan shall not exceed 10% of the number of all of the then outstanding Shares unless the Corporation receives the permission of the stock exchange or exchanges on which the Shares are then listed to exceed such threshold.
- (c) If any option granted under this Plan shall expire or terminate for any reason without having been exercised in full, any unpurchased Shares to which such Option relates shall be available for the purposes of the granting of Options under this Plan.

#### **5. Maintenance of Sufficient Capital**

The Corporation shall at all times during the term of the Plan ensure that the number of Shares it is authorized to issue shall be sufficient to satisfy the Corporation's obligations under all outstanding Options granted pursuant to this Plan.

#### **6. Eligibility and Participation**

- (a) The Board may, in its discretion, select any of the following persons to participate in the Plan:
  - (i) directors of the Corporation;
  - (ii) officers of the Corporation;
  - (iii) employees of the Corporation; and
  - (iv) consultants retained by the Corporation, provided such consultants have performed and/or continue to perform services for the Corporation on an ongoing basis or are expected to provide a service of value to the Corporation;

(any such person having been selected for participation in the Plan by the Board is herein referred to as a "Participant").

The Corporation represents that directors, officers, employees and consultants granted Options under this Plan are *bona fide* directors, officers, employees or consultants of the Corporation.

- (b) The Board may from time to time, in its discretion, grant an option to any Participant, upon such terms, conditions and limitations as the Board may determine, including the terms, conditions and limitations set forth herein, provided that Options granted to any Participant shall be approved by the shareholders of the Corporation if the rules of any stock exchange on which the Shares are listed require such approval.

## **7. Exercise Price**

The Board shall, at the time an Option is granted under the Plan, fix the exercise price at which Shares may be acquired upon the exercise of any such Option provided that such exercise price shall not be less than that from time to time permitted under the rules of any stock exchange or exchanges on which the Shares are then listed. Disinterested shareholder approval will be obtained for any reductions in the exercise price if the Participant is an insider of the Corporation at the time of the proposed amendment.

## **8. Number of Optioned Shares**

The number of Shares that may be acquired under an Option granted to a Participant shall be determined by the Board as at the time the Option is granted, provided that: (i) the aggregate number of Shares reserved for issuance to any one Participant under this Plan or any other plan of the Corporation, shall not exceed 5% of the total number of issued and outstanding Shares (calculated on a non-diluted basis) in any 12 month period; (ii) Options granted to a Participant who is a consultant shall not exceed 2% of the issued and outstanding Shares (calculated on a non-diluted basis) in any 12 month period; and (iii) Options granted to a Participant who is an employee engaged in investor relation activities shall not exceed 2% of the issued and outstanding Shares (calculated on a non-diluted basis) in any 12 month period, unless the Corporation receives the permission of the stock exchange or exchanges on which the Shares are listed to exceed such thresholds.

## **9. Term**

The period during which an Option may be exercised (the "Option Period") shall be determined by the Board at the time the Option is granted, subject to any vesting limitations which may be imposed by the Board in its sole unfettered discretion at the time such Option is granted under Sections 11, 12 and 16, provided that:

- (a) no Option shall be exercisable for a period exceeding five (5) years from the date the Option is granted unless otherwise specifically provided by the Board, and in any event, no Option shall be exercisable for a period exceeding ten (10) years from the date the Option is granted;
- (b) no Option in respect of which shareholder approval is required under the rules of any stock exchange or exchanges on which the Shares are then listed shall be exercisable until such time as the Option has been approved by the shareholders of the Corporation; and

- (c) the Board may, subject to the receipt of any necessary regulatory approvals, in its sole discretion, accelerate the time at which any Option may be exercised, in whole or in part.

## **10. Method of Exercise of Option**

- (a) Except as set forth in Sections 11 and 12 or as otherwise determined by the Board, no Option may be exercised unless the holder of such Option is, at the time the Option is exercised, a director, officer, employee or consultant of the Corporation.
- (b) Options that are otherwise exercisable in accordance with the terms thereof may be exercised in whole or in part from time to time.
- (c) Any Participant (or his legal, personal representative) wishing to exercise an Option shall deliver to the Corporation, at its principal office in the City of Calgary, Alberta:
  - (i) a written notice expressing the intention of such Participant (or his legal, personal representative) to exercise his Option and specifying the number of Shares in respect of which the Option is exercised; and
  - (ii) a cash payment, certified cheque or bank draft, representing the full purchase price of the Shares in respect of which the Option is exercised.
- (d) Upon the exercise of an Option as herein provided, the Corporation shall use reasonable efforts to forthwith deliver, or cause the registrar and transfer agent of the Shares to deliver, to the relevant Participant (or his legal, personal representative) or to the order thereof, a certificate representing the aggregate number of fully paid and non-assessable Shares in respect of which the Option has been duly exercised.

## **11. Ceasing to be a Director, Officer, Employee or Consultant**

If any Participant is terminated by the Corporation from his position or positions of director, officer, employee or consultant of the Corporation (as the case may be) for any reason other than death or permanent disability, his Option will expire and terminate at 4:00 p.m. (Calgary time) on the earlier of the date of the expiration of the Option Period and 90 days after the date such Participant ceases to hold the position or positions of director, officer, employee or consultant of the Corporation, as the case may be, unless such Participant was engaged in investor relations activities, in which case his Option will expire and terminate at 4:00 p.m. (Calgary time) on the earlier of the date of the expiration of the Option Period and 30 days after the date such Participant ceases to be engaged in investor relations activities. If, on the other hand, any Participant terminates, at his own discretion, his position or positions of director, officer, employee or consultant of the Corporation (as the case may be) for any reason other than death or permanent disability, his Option will expire and terminate at 4:00 p.m. (Calgary time) on the date such Participant ceases to hold the position or positions of director, officer, employee or consultant of the Corporation, as the case may be.

Neither the selection of any person as a Participant nor the granting of an Option to any Participant under this Plan shall (i) confer upon such Participant any right to continue as a director, officer, employee or consultant of the Corporation, as the case may be; or (ii) be construed as a guarantee that the Participant will continue as a director, officer, employee or consultant of the Corporation, as the case may be.



## **12. Death or Permanent Disability of a Participant**

In the event of the death or permanent disability of a Participant, any Option previously granted to him shall be exercisable until the end of the Option Period or until the expiration of 12 months after the date of death or permanent disability of such Participant, whichever is earlier, and then, in the event of death or permanent disability, only:

- (a) by the person or persons to whom the Participant's rights under the Option shall pass by the Participant's will, enduring power of attorney, or applicable law; and
- (b) to the extent that he was entitled to exercise the Option as at the date of his death or permanent disability.

## **13. Rights of Participants**

No person entitled to exercise any Option granted under this Plan shall have any of the rights or privileges of a shareholder of the Corporation in respect of any Shares issuable upon exercise of such Option until such Shares have been paid for in full and issued to such person.

## **14. Proceeds from Exercise of Options**

The proceeds from any sale of Shares issued upon the exercise of Options shall be added to the general funds of the Corporation and shall thereafter be used from time to time for such corporate purposes as the Board may determine and direct.

## **15. Adjustments**

- (a) The number of Shares subject to the Plan shall be increased or decreased proportionately in the event of the subdivision or consolidation of the outstanding Shares of the Corporation, and in any such event a corresponding adjustment shall be made to the number of Shares deliverable upon the exercise of any Option granted prior to such event without any change in the total price applicable to the unexercised portion of the Option, but with a corresponding adjustment in the price for each Share that may be acquired upon the exercise of the Option. In case the Corporation is reorganized or merged or consolidated or amalgamated with another corporation, appropriate provisions shall be made for the continuance of the Options outstanding under this Plan and to prevent any dilution or enlargement of the same.
- (b) Adjustments under this Section 15 shall be made by the Board, whose determination as to what adjustments shall be made, and the extent thereof, shall be final, binding and conclusive. No fractional Shares shall be issued upon the exercise of an Option following the making of any such adjustment.

## **16. Change of Control**

Notwithstanding the provisions of Section 11 or any vesting restrictions otherwise applicable to the relevant Options, in the event of a sale by the Corporation of all or substantially all of its assets or in the event of a change of control of the Corporation, each Participant shall be entitled to exercise, in whole or in part, the Options granted to such Participant hereunder, either during the term of the Option or within 90 days after the date of the sale or change of control, whichever first occurs.



For the purpose of this Plan, "change of control" of the Corporation means and shall be deemed to have occurred upon:

- (a) the acceptance by the holders of Shares of the Corporation, representing in the aggregate, more than 50% of all issued Shares of the Corporation, of any offer, whether by way of a takeover bid or otherwise, for all or any of the outstanding Shares of the Corporation; or
- (b) the acquisition, by whatever means, by a person (or two or more persons who, in such acquisition, have acted jointly or in concert or intend to exercise jointly or in concert any voting rights attaching to the Shares acquired), directly or indirectly, of beneficial ownership of such number of Shares or rights to Shares of the Corporation, which together with such person's then owned Shares and rights to Shares, if any, represent (assuming the full exercise of such rights to voting securities) more than 50% of the combined voting rights of the Corporation's then outstanding Shares; or
- (c) the entering into of any agreement by the Corporation to merge, consolidate, amalgamate, initiate an arrangement or be absorbed by or into another corporation; or
- (d) the passing of a resolution by the Board or shareholders of the Corporation to substantially liquidate the assets or wind-up the Corporation's business or significantly rearrange its affairs in one or more transactions or series of transactions or the commencement of proceedings for such a liquidation, winding-up or re-arrangement (except where such re-arrangement is part of a bona fide reorganization of the Corporation in circumstances where the business of the Corporation is continued and where the shareholdings remain substantially the same following the re-arrangement); or
- (e) individuals who were members of the Board of the Corporation immediately prior to a meeting of the shareholders of the Corporation involving a contest for or an item of business relating to the election of directors, not constituting a majority of the Board following such election.

#### **17. Transferability**

All benefits, rights and Options accruing to any Participant in accordance with the terms and conditions of this Plan shall be non-transferable and non-assignable unless specifically provided herein. During the lifetime of a Participant, any Options granted hereunder may only be exercised by the Participant and in the event of the death or permanent disability of a Participant, by the person or persons to whom the Participant's rights under the Option pass by the Participant's will, enduring power of attorney or applicable law.

#### **18. Amendment and Termination of Plan**

The Board may, at any time, suspend or terminate the Plan. The Board may also, at any time, amend or revise the terms of this Plan, subject to the receipt of all necessary regulatory approvals, provided that no such amendment or revision shall alter the terms of any Option theretofore granted under this Plan.

## **19. Necessary Approvals**

The obligation of the Corporation to issue and deliver Shares in accordance with this Plan and Options granted hereunder is subject to applicable securities legislation and to the receipt of any approvals that may be required from any regulatory authority or stock exchange having jurisdiction over the securities of the Corporation. If Shares cannot be issued to a Participant upon the exercise of an Option for any reason whatsoever, the obligation of the Corporation to issue such Shares shall terminate and any funds paid to the Corporation in connection with the exercise of such Option will be returned to the relevant Participant as soon as practicable.

## **20. Stock Exchange Rules**

This Plan and any option agreements or other instruments entered into hereunder shall comply with the requirements from time to time of the stock exchange or exchanges on which the Shares are listed.

## **21. Right to Issue Other Shares**

The Corporation shall not by virtue of this Plan be in any way restricted from declaring and paying stock dividends, issuing further Shares, varying or amending its share capital or corporate structure or conducting its business in any way whatsoever.

## **22. Notice**

Any notice required to be given by this Plan shall be in writing and shall be given by registered mail, postage prepaid or delivered by courier or by facsimile transmission addressed, if to the Corporation, at its principal address in Calgary, Alberta (Attention: the President); or if to a Participant, to such Participant at his address as it appears on the books of the Corporation or in the event of the address of any such Participant not so appearing, then to the last known address of such Participant; or if to any other person, to the last known address of such person.

## **23. Gender**

Whenever used herein words importing the masculine gender shall include the feminine and neuter genders and vice versa.

## **24. Interpretation**

This Plan will be governed by and construed in accordance with the laws of the Province of Alberta.





## CORPORATE INFORMATION

**OFFICERS:** President - Nazrul Islam  
Corporate Secretary - Robert M. Boyer

**DIRECTORS:** Nazrul Islam - Calgary, Alberta  
Robert M. Boyer - Calgary, Alberta  
William E. Richards - Calgary, Alberta  
Robin Chan - Calgary, Alberta

**INCORPORATION:** Alberta, Canada  
October 6, 1994

**HEAD OFFICE:** Suite 2240, 444 Fifth Avenue SW  
Calgary, Alberta T2P 2T8  
Tel: (403) 234-9006  
Fax: (403) 266-5959

**BANKER:** Canadian Western Bank  
606 - 4 - Street SW  
Calgary, Alberta T2P 1T1

**SOLICITOR:** Spier Harben  
Suite 1000, 665 Eighth Street SW  
Calgary, Alberta T2P 3K7

**AUDITORS:** Hudson & Company  
Suite 300, 625 - Eleventh Avenue SW  
Calgary, Alberta T2R 0E1

**REGISTRAR:** Computershare Trust Company of Canada  
Suite 600, 530 Eighth Avenue SW  
Calgary, Alberta T2P 3S8

**LISTING:** The TSX Venture Exchange  
Trading Symbol: ALF